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**ARIZONA CORPORATION COMMISSION****SANDRA D. KENNEDY**1200 W. Washington
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January 8, 2020

RE: IN THE MATTER OF POSSIBLE MODIFICATIONS TO THE ARIZONA
CORPORATION COMMISSION'S ENERGY RULES.
(DOCKET NO. RU-00000A-18-0284)

My Fellow Commissioners,

We are in the midst of a climate emergency. Arizona is facing our third decade of drought.¹ Since 1970, Arizona has increased 3.2° F, and is the third fastest warming state in the country.²

As the climate gets hotter, the vulnerabilities of the electric system increase.³ As electric system vulnerabilities multiply, so go the risks to ratepayers. It is past time for Arizona to enact updated energy rules that result in significant carbon emission reductions that also protect current and future Arizona utility ratepayers from devastating climate impacts.

Last year I docketed my proposed renewable energy standard update, the Kennedy Renewable Energy Standard (KREST I) (see my letter to this docket dated February 8, 2019). My proposal built upon the existing REST and updated the standard to 50 percent renewable energy by 2028. I also supported incentivizing battery storage and microgrid development in that proposal. I am now submitting my updated plan, the Kennedy Renewable Energy Standard and Transition Plan II (KREST II), which includes each element of my initial proposal as well as new provisions aimed at a) updating our renewable energy rules b) providing a path for Arizona's energy transition and c) increasing system resiliency and reliability and d) acknowledging the water/energy nexus in Arizona (see Appendix A for implementation schedule).

50 percent Renewable Energy Standard by 2028 and 100 percent Carbon Emissions Free Standard by 2045.

KREST II continues the requirement element of the existing REST. Requiring utility compliance ensures policy continuity and certainty for the regulated entities while also supporting utility accountability and transparency to the public. The requirement was critical to the success of the REST and EERS, and will be critical to the success of any updated renewable energy and energy

¹ Arizona State Climate Office. Arizona Drought. Retrieved from <https://azclimate.asu.edu/drought/>.

² Climate Central. American Warming Report. 2019. Retrieved from https://assets.climatecentral.org/pdfs/April2019_Report_EarthDay.pdf?pdf=AmericanWarming-Report

³ Gonzalez, P., G.M. Garfin, D.D. Breshears, K.M. Brooks, H.E. Brown, E.H. Elias, A. Gunasekara, N. Huntly, J.K. Maldonado, N.J. Mantua, H.G. Margolis, S. McAfee, B.R. Middleton, and B.H. Udall, 2018: Southwest. In *Impacts, Risks, and Adaptation in the United States: Fourth National Climate Assessment, Volume II* [Reidmiller, D.R., C.W. Avery, D.R. Easterling, K.E. Kunkel, K.L.M. Lewis, T.K. Maycock, and B.C. Stewart (eds.)]. U.S. Global Change Research Program. Washington, DC, USA, pp. 1101–1184. doi: 10.7930/NCA4.2018.CH25

efficiency policy this Commission passes. Moving from a required standard to a voluntary, aspirational goal would be a drastic, unnecessary, and unproductive change in policy.

Stakeholders from the Arizona Technology Council, to the Pascua Yaqui Tribe, to multi-national corporations including American Express, to a coalition of 27 environmental, faith-based, and public health officials, have expressed clear support for a minimum of 50 percent renewable energy by 2030 here in Arizona.⁴ Under KREST II, retail sales from regulated electric utilities would come from 50 percent renewable energy resources by 2028. Also under KREST II, 100 percent of electricity sources will be carbon-emissions free by 2045.

KREST II eliminates the distributed generation carveout from the current REST and incorporates the 10 percent of retail sales to be sourced from distributed generation (“Distributed Renewable Energy Requirement” or DRER) proposed by the Joint Stakeholders.⁵

As Arizona and other states transition away from costly fossil fuel generation, the communities that bear the significant negative externalities of fossil fuel plants must be included in that transition. KREST II requires a carveout of 25 percent of utility-scale renewable energy resources to be purchased from coal-impacted communities by 2028. Development on tribal lands are notoriously complex compared to non-tribal lands. To ensure that coal-impacted communities on tribal lands attract renewable energy investment, the new KREST II rules include a Task Force made of regulated utilities, stakeholders from tribal government (both central and local), tribal NGOs, renewable energy developers, and research institutions. By 2022, the Task Force will identify state policy hindrances to renewable energy development on tribal lands and recommend policy and other approaches to supporting these developments.

Securitization and Reinvestment

New Mexico, Colorado, and other states are using proven financial mechanisms such as securitization to close costly coal-fired power plants well before their planned closure date, shifting significant risk away from ratepayers. In New Mexico, securitization will save ratepayers millions; \$40 million of which will be reinvested in state workforce development and related initiatives for coal-dependent communities. Colorado has a similar energy transition plan that includes reinvestment of bond funds into renewable energy and other capital projects. This Commission should investigate similar options to protect current and future ratepayers.

Resiliency and Reliability

KREST I included improvements to system resiliency and reliability; KREST II expands upon these. Addressing the many risks inherent in our current, centralized energy system requires investment in energy storage at different scales and locations. It necessitates incentivizing

⁴ Stakeholders who have docketed support for a 50 percent renewable energy standard include: Pascua Yaqui Tribe; Sonoran School District; Arizona Technology Council; American Express; Arizona Public Health Association, Western Grid Group, Arizona Interfaith Power and Light, Chispa, Conservative Alliance for Solar Energy, Black Mesa Water Coalition; Tó Nizhoni Ánł i, Diné CARE and Former Navajo Nation Council Delegate from Big Mountain, and others. Other stakeholders have expressed support for a mandatory and “significant” increase to the REST and EERS, including Physicians for Social Responsibility and Conservatives for Responsible Stewardship.

⁵ Joint Stakeholder Proposal for New Energy Rules. <https://docket.images.azcc.gov/E000002141.pdf>

microgrid development where economically feasible. It requires significant investment in non-wires alternatives, such as demand response, and continued investment in our least-cost resource, energy efficiency.

KREST II resiliency and reliability provisions:

- Performance-based incentives for microgrid development and for energy storage systems paired with renewable energy generation facilities.
- The Energy Efficiency Resource Standard (“EERS”) will be updated to require 35 percent (aligned with Commissioner Dunn’s proposal)⁶ of cumulative energy savings by 2030. I also propose to incorporate a 10 percent Demand/Response⁷ carveout of that EERS by 2030.
- Electric vehicle goal of 500,000 by 2035 with managed charging for each Class I electric utility. This is consistent with Salt River Project’s goal.

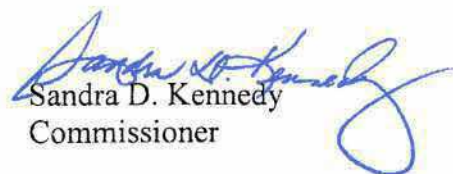
Water/Energy Nexus

As Arizona enters its third decade of drought, acknowledging the water/energy nexus is increasingly critical to the well-being of all Arizonans. The updated policies should acknowledge that nexus and encourage the use of water efficient energy resources. KREST II requires affected utilities to transparently monitor, report, and benchmark the water intensity and water source of each generating asset.

Conclusion

I fully intend to lead on necessary energy policies to protect Arizonans now and in the future. There is no more time to waste. I will be requesting that Chairman Burns put this matter on a staff meeting agenda in January to discuss procedurally how to move forward with alacrity on the REST and EERS updates. I encourage my fellow Commissioners to support KREST II, so that we can build upon the success of the existing REST and EERS, and act upon the need for ratepayer and utility risk mitigation in the new decade.

Sincerely,


Sandra D. Kennedy
Commissioner

⁶ Letter from Commissioner Dunn, April 26, 2019. <https://docket.images.azcc.gov/0000197554.pdf>

⁷ I am also open to the possibility of creating a separate requirement for Demand/Response, outside of the EERS.

KREST II timeframes

- Renewable Energy Ramp Up Schedule: Mandatory 50% by 2028; 100% zero carbon resources by 2045

Year	Percent RE	Increment
2020	10%	
2021	15%	5%
2022	20%	5%
2023	25%	5%
2024	30%	5%
2025	35%	5%
2026	40%	5%
2027	45%	5%
2028	50%	5%

- Ramp schedule for “clean” energy:

Year	Percent
2030	50%
2040	75%
2045	100%

- Energy Efficiency Resource Standard Ramp Up Schedule: Mandatory 35% by 2030 with a 10% Demand Response carveout

Year	Percent EE	(DR)	Increment
2020	20%	(1%)	1% (1%)
2021	22%	(1.5%)	2% (.5%)
2022	24%	(2%)	2% (.5%)
2023	26%	(4%)	2% (2%)
2024	28%	(5%)	2% (1%)
2025	30%	(6%)	2% (1%)
2026	31%	(7%)	1% (1%)
2027	32%	(8%)	1% (1%)
2028	33%	(8.5%)	1% (.5%)
2029	34%	(9.5%)	1% (1%)
2030	35%	(10%)	1% (.5%)